

October 15, 2008

Philip Guidice, Commissioner
Department of Energy Resources
100 Cambridge Street, Suite 1020
Boston, MA 02114

RE: Comments Addressing Section 105 of Chapter 169 of the Acts of 2008

Dear Commissioner Guidice:

I am writing on behalf of NSTAR Electric Company (“NSTAR Electric” or the “Company”) at the invitation of the Department of Energy Resources (“DOER”) regarding SECTION 32, Section 11F1/2 of Chapter 169 of the Acts of 2008 (the “Green Communities Act” or “GCA”). As you are aware, Section 11F1/2 requires the DOER to establish an alternative energy portfolio standard (APS) for all retail electricity suppliers selling electricity to end-use customers in the commonwealth. In the paragraphs that follow NSTAR Electric will comment on a number of the outstanding issues before the DOER and how the legislation can be successfully implemented without overly burdening electric ratepayers in Massachusetts.

As the DOER is well aware, the electric ratepayers in the commonwealth currently pay some of the highest electricity prices in the United States. In addition, overburdened ratepayers are presently funding investments in renewable energy projects via the Massachusetts Renewable Energy Trust Fund and the current Renewable Portfolio Standard (RPS) program. Significant additional requirements will compound the burden on ratepayers resulting in financial hardship and job losses in Massachusetts. The DOER must balance the Legislature’s goals of promoting alternative energy technologies with the economic realities of high energy costs.

NSTAR Electric has developed three principal recommendations for the DOER as it works to develop and implement APS standards for all retail electricity suppliers.

- Electric ratepayers should only be required to provide a minimum percentage on kilowatt-hour sales from alternative energy sources that began commercial operation or added incremental capacity after January 1, 2009
- The DOER is tasked with setting the percentage of kilowatt-hour sales from alternative energy sources. The percentage should initially be very small and should increase very gradually over a considerable period of time.
- Alternative Compliance Payment (ACP) levels should be set very low initially.

Qualified “alternative energy sources” must have begun commercial operation or added incremental capacity after January 1, 2009.

The purpose of the APS portion of the Green Communities Act was to provide incentives to promote “alternative” energy production. While NSTAR Electric supports this development, many existing “alternative” installations identified in the legislation are economically viable and do not need additional subsidies. These resources currently receive relatively high energy and capacity payments. In addition, many of these pre-2009 facilities have been in operation for many years and are depreciated and often operate at a considerable economic advantage to new facilities. The design of the APS regulations should foster new, clean and economically viable alternative energy sources.

The percentage of kilowatt-hour sales to end-user customers should initially be very small and should increase very gradually over a considerable period of time to allow time for these resources to develop.

NSTAR Electric proposes the DOER set the percentage level of kilowatt-hour sales very low and gradually increase over time. This percentage should be linked to reasonable and verifiable estimates of the amount of alternative technologies that are expected to come into commercial operation. In addition, there should be no growth in the requirements for the first 3 years in order to allow the incentives supplied by the APS payments to spur new generation

As the DOER deliberates the initial percentage level, NSTAR Electric recommends that the Department consider the implementation model of the current RPS program. RPS percentages were initially set very low and increased gradually over time, allowing the capacity to grow with the requirements.

Alternative Compliance Payment (ACP) levels should initially be set very low.

ACP levels must be initially set low and certainly lower than Class I or Class II RPS levels. APS resources are desirable from a standpoint of lowering carbon dioxide emissions and increasing fuel diversity, however, they are not as environmentally clean as Class I or Class II resources.

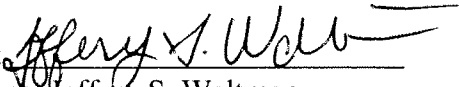
It should also be considered that certain of these approved technologies present significant market viability challenges. Any technology that would not be viable in a year or so with a minimum level of support should not be considered when setting the ACP level. Instead incentives should be provided that spur installations of new proven technology that can reasonably be expected to provide benefits to Massachusetts consumers today. Trying to provide incentives for speculative technologies will only serve to unjustly enrich the already viable technologies in the marketplace at the expense of customers with little or no new development for quite some time.

Conclusion

The DOER must be mindful of the costs and economic ramifications of these programs. Should the DOER set a 2009 minimum percentage of kilowatt-hour sales at 1% and an ACP of \$5, Massachusetts ratepayers will be responsible for additional annual costs over the next 5 years of approximately \$15 M. Higher minimum percentages and ACP rates will only serve to increase costs to ratepayers.

NSTAR Electric urges the DOER to provide incentives to develop alternative energy sources in a manner that reflects their contribution to energy diversity and the lowering of carbon dioxide emissions. These incentives should also be designed to develop new, more efficient, viable technologies and not to provide unneeded subsidies to those already in production.

NSTAR ELECTRIC COMPANY

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